KEYBRIDGE
Public Policy Economics

COVID-19: SMALL BUSINESS IMPACTS

Lessons for the States

May 19, 2020

Report Highlights

An estimated 45% of American small businesses closed temporarily due to COVID-19.

Despite federal assistance, small businesses across the country remain vulnerable, with 35% still shuttered.

The potential for widespread, permanent small business closures poses a risk to state budgets and economies.

EXECUTIVE SUMMARY

As America reopens, small businesses remain at risk.

America's small businesses have been ravaged by the COVID-19 pandemic. According to real-time data on small business activity, 45% of small businesses nationwide were closed during the peak lockdown period in mid-April. But impacts vary considerably across states and territories – from hardest-hit Puerto Rico, where 75% of small firms closed, to Nebraska, where 26% were shuttered.

Little by little, Americans are venturing out and heading back to work, as states begin to lift lockdown restrictions. However, 2.1 million small businesses remain closed. Even in states that have lifted restrictions, a sizable share of small businesses have not reopened.

The Paycheck Protection Program (PPP) has disbursed more than $531 billion in credit to vulnerable businesses across the country. However, state-level disparities in disbursement reveal at least a $149 billion remaining shortfall. If the virus remains widespread, small businesses will likely continue to suffer falling revenues and financial insecurity. State governments should continue to monitor small business activity for clues about additional necessary assistance and the potential impact on state budgets.

NGA
NATIONAL GOVERNORS ASSOCIATION

Introduction

Small businesses are particularly vulnerable to the economic impacts of COVID-19.

COVID-19 and efforts to contain the virus have had a devastating impact on American small businesses. In March 2020, all US states and territories introduced containment measures, including stay-at-home orders and prohibitions on nonessential business operations. Most of the private sector is feeling the effects of an ongoing virus-induced recession – from forced closures and falling consumer demand to snarled supply chains, financial stress, and logistical challenges.

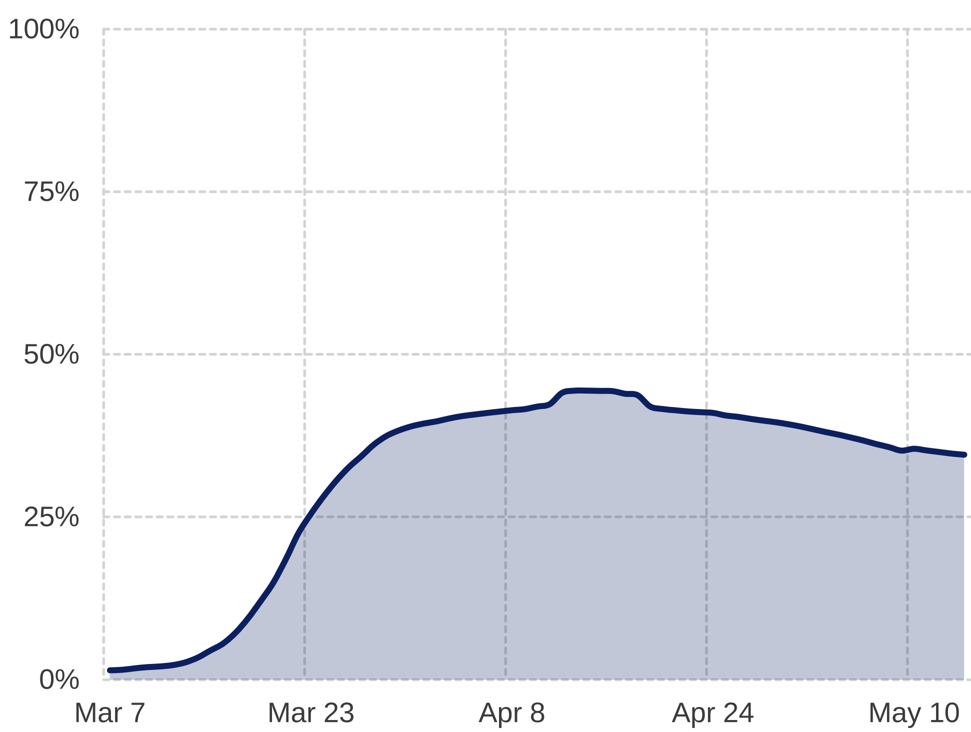
But small businesses have so far borne the brunt of the impact. Firms with fewer than 500 employees tend to be concentrated in sectors characterized by a high degree of human contact – including personal care services, accommodation & food services, and entertainment. They tend to be more reliant on a limited set of suppliers and customers, have less access to credit, and face greater financial insecurity than large businesses.

Small businesses are therefore particularly vulnerable to the economic impacts of COVID-19. To mitigate the effects on small businesses and their employees, Congress approved the Paycheck Protection Program (PPP) in late March, setting aside $659 billion to help small businesses maintain payrolls and meet financial obligations.

This report summarizes the economic impacts of COVID-19 on the small business sector. It provides timely state-by-state estimates for the number of small businesses that have (temporarily) closed because of the virus and the amount of credit necessary to meet immediate demand under PPP lending terms. These estimates provide important context for understanding how small businesses are likely to fare over the next few months. Small businesses employ 38% of the US workforce.[1] If many small businesses are forced to close permanently, the hit to state budgets – due to reduced property, corporate, and income tax revenues and elevated unemployment claims – will be significant.

Nationwide Small Business Closures

Chart: Seven-day moving average of percent of businesses closed since March 7



In mid-March, as the extent of the virus spread became apparent, states and territories across the country enacted containment measures as workers and consumers opted to stay home.

From March 7 – April 4, the share of small businesses nationwide that were (temporarily) closed due to COVID-19 rose from 2% to 41%.

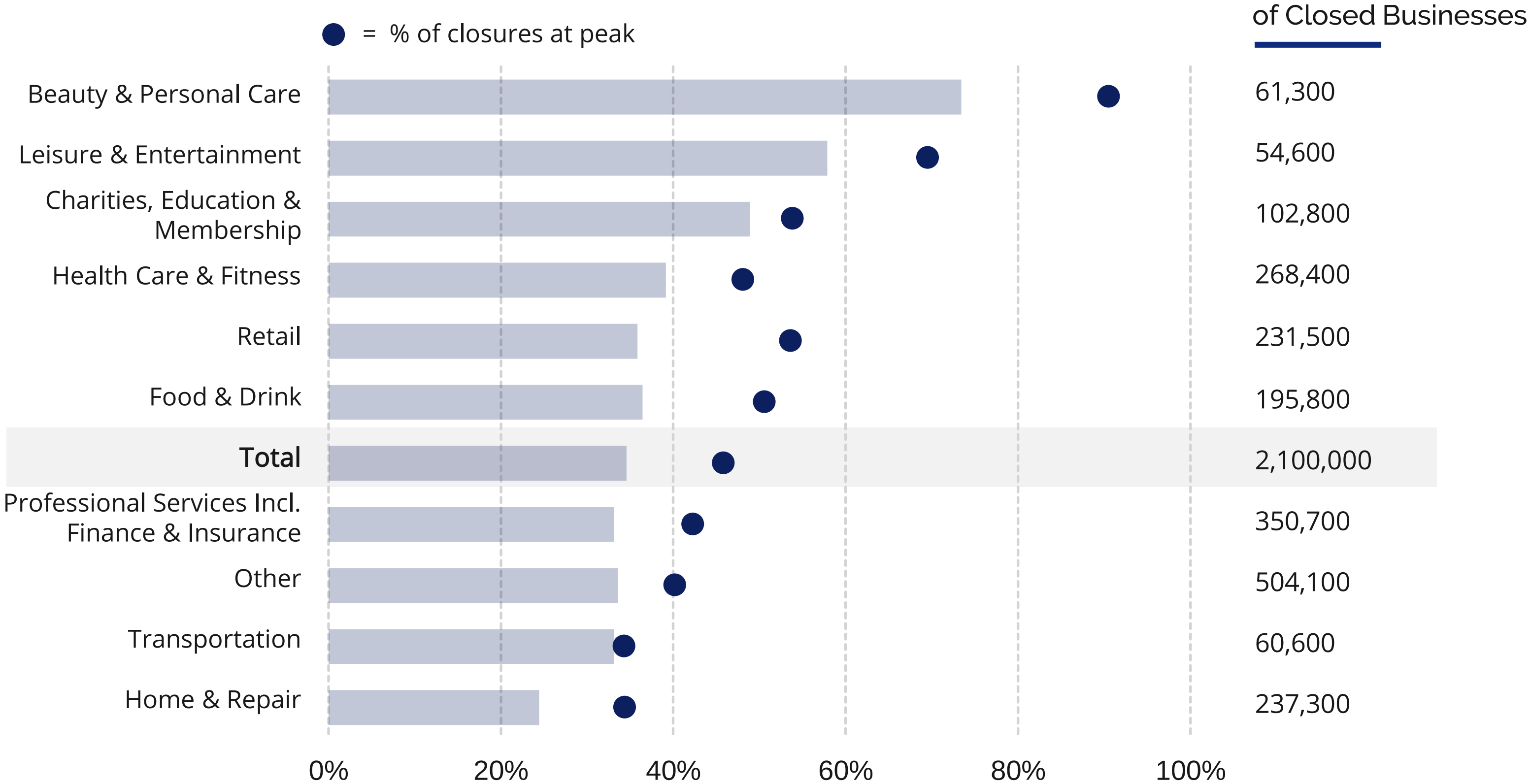
By mid-April – the period of peak closure – **45%** of small businesses were closed, amounting to **2.7 million** small firms nationwide.

Although several US states have since loosened restrictions on activity, **35%** of small businesses remain closed as of May 14.

Source: Homebase data, Keybridge calculations

Nationwide Small Business Closures by Industry

Chart: Estimated percentage of small business closures by industry



Sources: Homebase, US Census Bureau, Keybridge calculations

The rate of small business closure varies by industry. Sectors deemed less essential and those involving a higher degree of in-person contact have seen a large majority of businesses close. Small businesses in **Beauty & Personal Care** – including barber shops, nail salons, tattoo parlors, and dry-cleaning services – have been the hardest hit, with a 91% of businesses shuttered in mid-April. Despite relaxing restrictions on these businesses in some states, 73% of small businesses in Beauty & Personal Care remain closed.

Small businesses in the **Transportation** (including trucking, taxi & limousine services, pipeline transportation, and warehousing) and **Home & Repair** (including car washes, auto repair, and appliance repair) sectors have been among the least affected. Still, during the period of peak closure in mid-April, over one third of businesses in those industries were effectively closed.

Overall, small businesses across industries have been severely affected by COVID-19. Although an estimated 10% of small businesses nationwide have managed to reopen since peak closure in mid-April, millions remain shuttered across a variety of sectors and activities.

Industry variation in small business closure helps explain state variation. Generally, three factors seem to explain why some states have seen more businesses close than others: **1) virus severity, 2) local regulations, and 3) industry mix.**

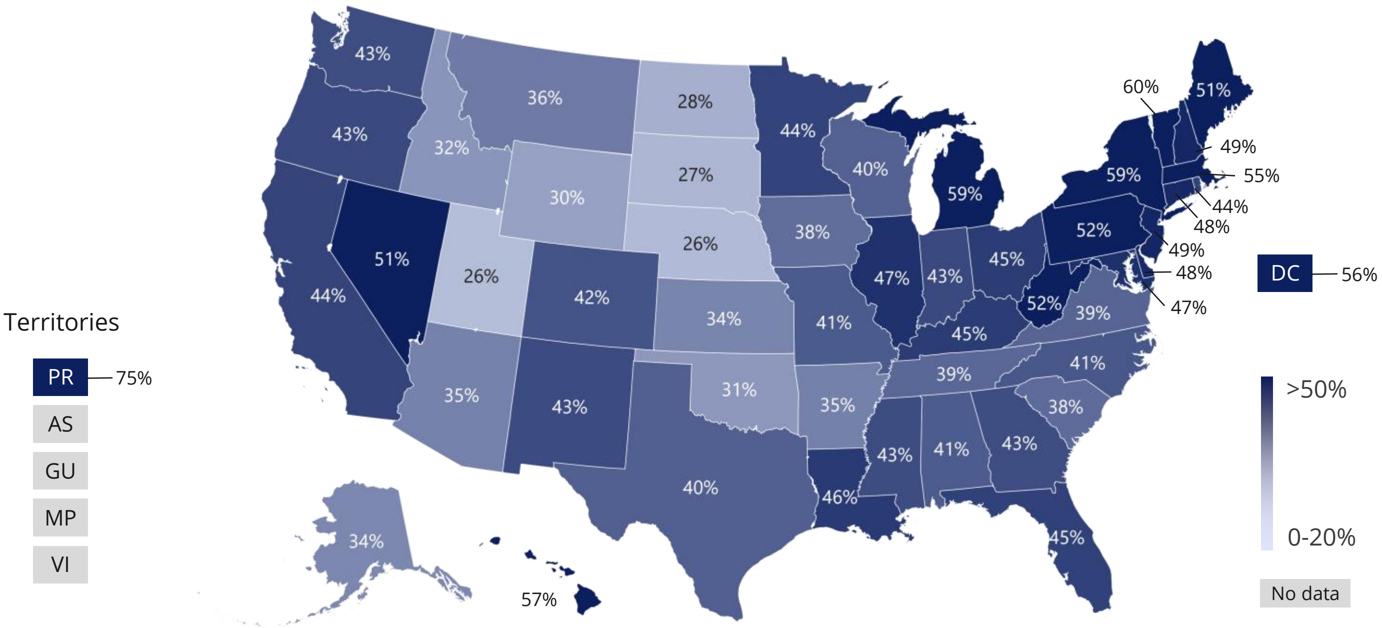
1) Virus severity explains why New York, the hardest-hit state in terms of case counts, saw 59% of its small businesses close by mid-April – the third-highest closure rate – compared to 45% of businesses nationwide.

2) Local regulations explain why small businesses in Kansas (34%) have closed at a higher rate than in Nebraska (26%) despite similar economies and similar per-capita case counts in mid-April. (However, KS's per-capita case counts are now lower than NE's.)

3) Industry mix explains why Hawaii (57%) and West Virginia (52%) have seen more businesses close despite having some of the lowest case counts. With a high share of small businesses in tourism (HI) and personal care services (WV), these states' small businesses are more vulnerable to COVID-19.

Nationwide Small Business Closures by State & Territory at Peak

Estimated percentage of small business closures by state and territory at mid-April peak

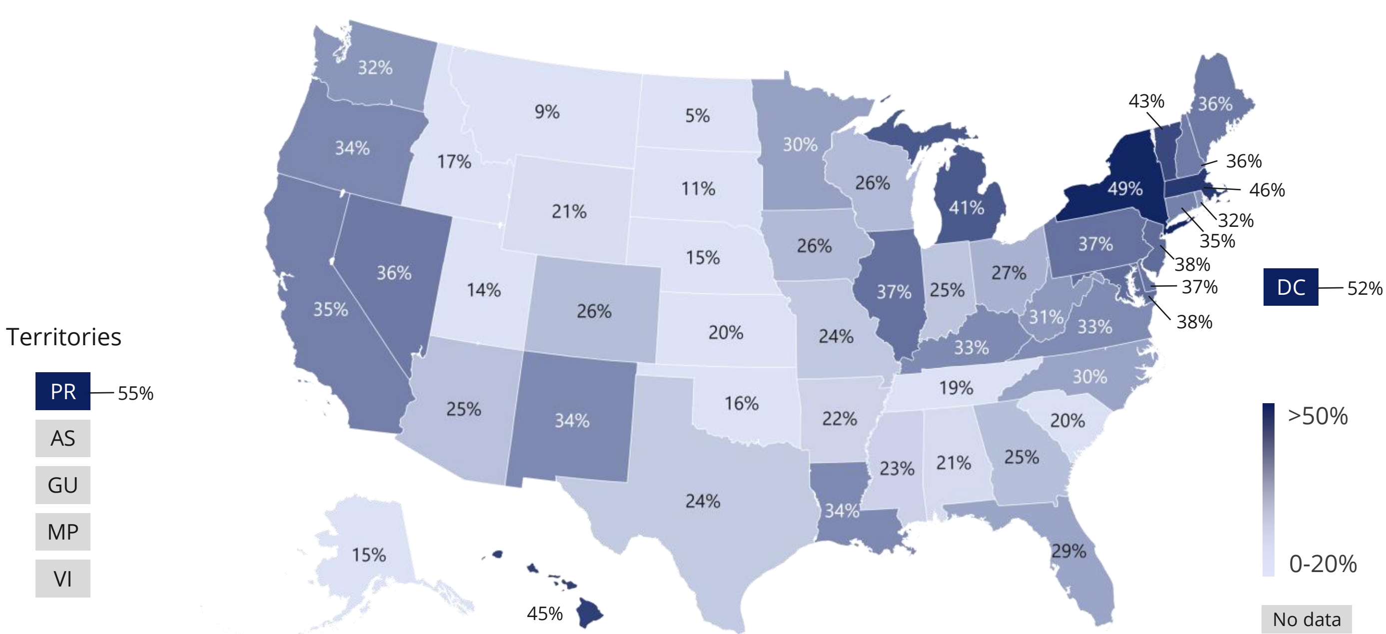


Sources: Homebase, Keybridge calculations

In May, many US states have relaxed restrictions on mobility and business activity. Some businesses have therefore managed to reopen since mid-April. The degree of increase in activity also varies by state. Montana and North Dakota, where reopening began earlier and per-capita case counts are lower than in other states, have seen more than 20% of small businesses open in the last month. Meanwhile, less than 10% of small firms have reopened in Virginia, Massachusetts, California, and Maryland, among others. Even in states that have lifted many restrictions, a sizable share of small firms remain closed.

Nationwide Small Business Closures by State & Territory

Estimated percentage of small business closures by state and territory, as of May 14



Sources: Homebase, Keybridge calculations

Sizing Up the Paycheck Protection Program (PPP)

PPP has gone a long way toward helping America's small businesses and workers. But substantial needs remain.

On March 27, Congress created the Paycheck Protection Program (PPP) and the (much smaller) Economic Injury Disaster Loan (EIDL) program to help small businesses retain employees and meet financial obligations. After the initial $349 billion of PPP funding was depleted in just two weeks, a second round with an additional $310 billion opened on April 27. Under PPP, firms with fewer than 500 employees may apply for a low-interest loan equal to no more than 10 weeks of the firm's payroll costs. If the firm retains its employees and applies no less than 75% of the loan amount toward payroll, the loan may be forgiven.

An estimated 80% of small businesses nationwide have applied or will soon apply for a PPP loan.[2] Based on this figure, Keybridge estimates that at least 4.8 million small businesses are likely to apply for PPP, with total credit demand expected to reach at least **$660 billion**. (This figure does not include an additional estimated $24 billion for large hotel and restaurant chains that also qualify for PPP.) The table below displays estimates for the number of small businesses in each state that would be expected to apply for PPP and their expected credit demand, based on national-level industry estimates and the rate of small business closure by state.

State / Territory	Estimated Number of Businesses Closed at Peak	Estimated PPP Loan Demand		Share of Estimated Demand Met		Remaining Credit Shortfall ($ thousand)
		Number of Businesses	Amount of Credit ($ thousand)	% of Businesses	% of Credit	
Alabama	29,200	53,100	$ 6,945,400	110%	92%	$ 556,900
Alaska	5,600	10,200	$ 1,302,900	94%	99%	$ 12,800
Arizona	37,100	67,700	$ 8,301,700	93%	107%	N/A
Arkansas	17,000	31,300	$ 3,306,900	125%	102%	N/A
California	334,400	607,900	$ 91,203,400	81%	76%	$ 21,987,500
Colorado	57,000	103,800	$ 12,115,600	91%	88%	$ 1,455,300
Connecticut	33,500	60,600	$ 10,098,700	88%	68%	$ 3,221,200
Delaware	9,200	16,700	$ 2,262,000	65%	66%	$ 775,700
District of Columbia	9,500	17,000	$ 5,341,600	62%	43%	$ 3,028,800
Florida	199,900	364,500	$ 34,878,600	85%	90%	$ 3,604,900
Georgia	75,600	137,500	$ 16,497,700	92%	88%	$ 1,915,900
Hawaii	13,900	24,600	$ 3,421,000	89%	74%	$ 887,500
Idaho	12,200	22,500	$ 2,033,200	123%	129%	N/A
Illinois	118,600	215,600	$ 31,164,800	80%	74%	$ 8,218,600

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Sizing Up the Paycheck Protection Program (PPP), Cont'd

State / Territory	Estimated Number of Business es Closed at Peak	Estimated PPP Loan Demand		Share of Estimated Demand Met		Remaining Credit Shortfall ($ thousand)
		Number of Businesses	Amount of Credit ($ thousand)	% of Businesses	% of Credit	
Indiana	46,200	84,000	$ 11,441,000	85%	84%	$ 1,776,500
Iowa	23,000	42,200	$ 5,244,300	125%	99%	N/A
Kansas	19,200	35,000	$ 4,466,600	135%	116%	N/A
Kentucky	29,400	53,500	$ 6,552,100	83%	81%	$ 1,243,200
Louisiana	36,300	66,000	$ 9,152,300	97%	81%	$ 1,780,200
Maine	16,800	30,400	$ 3,145,100	83%	73%	$ 855,500
Maryland	50,100	91,900	$ 14,766,000	73%	68%	$ 4,671,300
Massachusetts	77,000	139,700	$ 25,216,200	74%	60%	$ 10,176,900
Michigan	100,700	170,700	$ 24,696,000	65%	66%	$ 8,492,500
Minnesota	51,800	94,100	$ 13,412,400	95%	85%	$ 2,047,100
Mississippi	18,400	33,400	$ 3,532,000	121%	90%	$ 342,300
Missouri	45,900	83,500	$ 10,263,300	100%	91%	$ 909,200
Montana	11,400	20,800	$ 1,740,100	104%	102%	N/A
Nebraska	11,100	20,300	$ 2,301,200	193%	152%	N/A
Nevada	25,700	46,700	$ 5,751,500	75%	71%	$ 1,640,400
New Hampshire	14,300	26,100	$ 3,811,300	84%	69%	$ 1,192,400
New Jersey	93,200	169,300	$ 24,384,800	74%	72%	$ 6,829,500
New Mexico	14,200	25,800	$ 2,976,500	77%	75%	$ 733,100
New York	269,900	460,800	$ 66,481,200	59%	59%	$ 27,346,100
North Carolina	71,800	130,700	$ 14,966,700	81%	85%	$ 2,264,400
North Dakota	5,300	9,600	$ 1,288,500	192%	139%	N/A
Ohio	81,700	148,400	$ 21,948,100	85%	87%	$ 2,894,100
Oklahoma	22,200	40,500	$ 4,790,800	147%	116%	N/A

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Sizing Up the Paycheck Protection Program (PPP), Cont'd

State / Territory	Estimated Number of Businesses Closed at Peak	Estimated PPP Loan Demand		Share of Estimated Demand Met		Remaining Credit Shortfall ($ thousand)
		Number of Businesses	Amount of Credit ($ thousand)	% of Businesses	% of Credit	
Oregon	40,300	73,200	$ 8,536,600	74%	82%	$ 1,513,300
Pennsylvania	116,700	211,900	$ 30,664,700	71%	70%	$ 9,226,100
Rhode Island	10,300	18,600	$ 2,427,800	84%	79%	$ 498,800
South Carolina	30,700	55,800	$ 6,231,100	100%	94%	$ 404,300
South Dakota	5,800	10,600	$ 1,122,900	192%	149%	N/A
Tennessee	37,200	67,900	$ 9,885,800	119%	93%	$ 730,500
Texas	174,600	317,800	$ 46,765,600	107%	91%	$ 4,421,700
Utah	16,600	30,400	$ 3,423,700	151%	160%	N/A
Vermont	10,400	17,300	$ 1,928,800	65%	62%	$ 723,800
Virginia	58,800	107,100	$ 15,883,100	89%	82%	$ 2,824,100
Washington	65,400	118,900	$ 15,879,800	75%	78%	$ 3,526,000
West Virginia	13,200	23,900	$ 2,674,300	66%	69%	$ 837,200
Wisconsin	42,200	76,800	$ 10,997,800	101%	92%	$ 894,800
Wyoming	5,200	9,500	$ 888,900	130%	118%	N/A
Puerto Rico	32,800	43,500	$ 3,982,000	61%	43%	$ 2,269,500
American Samoa*	No data	400	$ 18,500	22%	29%	$ 13,100
Guam*	No data	2,800	$ 324,900	60%	60%	$ 128,700
Northern Mariana Islands*	No data	14,100	$ 76,700	2%	44%	$ 43,000
U.S. Virgin Islands*	No data	2,000	$ 213,100	57%	58%	$ 89,400
United States	**2,151,600**	**4,805,300**	**$ 660,112,000**	**89%**	**80%**	**$ 149,077,300**

*See Appendix for methodological notes regarding estimates for US territories

Sources: US Census Bureau, US Bureau of Economic Analysis, Small Business Administration, Homebase, Keybridge calculations

Sizing Up the Paycheck Protection Program (PPP), Cont'd

Based on data for the second round of PPP through May 8, the Small Business Administration (SBA) has approved $531 billion in loans for over 4.2 million small businesses nationwide. The SBA has therefore approved loans for an estimated 89% of small firms expected to apply and awarded 80% of the expected demand for PPP credit.

On the surface, these figures indicate that the PPP has succeeded in delivering credit to most small businesses in need. Despite widespread reporting on the program's shortcomings, the PPP's second round has corrected many of the first round's failures. For example, the average loan size fell from $206,000 in Round 1 to $73,000 in Round 2 – indicating that PPP funding is finally reaching smaller businesses.

However, the national total hides disparities between states, which point to a remaining **$149 billion shortfall**. While some states, including many rural midwestern states, have been approved for funds at rates higher than their eligible payroll and closure rates might suggest, other states' small businesses have received relatively less. For example, New York – the worst-hit state in terms of virus case counts – has seen only 59% of expected credit demand fulfilled. Meanwhile, 92% of *all* small businesses in Nebraska have been approved for a loan, despite being the least-affected state in terms of business closures.

There are several reasons for these disparities. Small businesses in rural midwestern states tend to have stronger preexisting relationships with community banks, allowing for faster, more successful application processing.[3] More worryingly, vulnerable small businesses in the worst-hit states may be reluctant to apply for a PPP loan out of concern they will struggle to maintain payroll in a difficult market environment and therefore fail to qualify for loan forgiveness.

The fact that a relatively high share of PPP credit was extended to rural midwestern states does not necessarily mean those states are receiving "too much." In fact, the figures are limited primarily by the terms of the program, which likely underestimate the true amount of money necessary to make small businesses whole. That amount is difficult to quantify. However, even after $531 billion disbursed, a reported **52% of small businesses nationwide expect to be out of business within six months**.[4] This figure along with other worrying anecdotes and survey findings indicate that small businesses across the country remain highly vulnerable and may require substantial additional federal and state-level assistance to avoid shuttering for good.

Conclusion

Continued pain in the small business sector poses serious risks for states' economies and budgets.

Even as states begin to reopen their economies, small businesses across America continue to struggle. Over one-third of small businesses remain shuttered, and those reopening face dramatic declines in revenue that may make them unprofitable for months to come.

The possibility that millions of small businesses will have to close permanently poses serious risks for state budgets and state economies. Small businesses employ at least 38% of the U.S. workforce, and in some states and territories (including Puerto Rico, Montana, Wyoming, and Vermont) the share is significantly higher.

If temporary layoffs in the small business sector become permanent, states will witness persistently high continuing unemployment claims. State revenues will also fall significantly, as the disappearance of some small businesses and falling revenues for others lowers property, corporate, and individual tax collections.

As state governments consider the policies to enact at the state level and advocate for at the federal level, they should consider the negative economic impacts of COVID-19 on the small business sector and the implications for their budgets, economies, and workforces.

APPENDIX

Methodology

This report draws primarily from two data sources: daily statistics on small business closures from Homebase, an employee time-tracking service, and the 2017 Statistics of US Businesses (SUSB) data tables from the US Census Bureau, published in March 2020. Additional sources referenced and consulted include the Small Business Administration (SBA) Paycheck Protection Program (PPP) reports, employment and payroll data from the US Bureau of Economic Analysis, and Current Employment Statistics on state- and industry-level employment from the US Bureau of Labor Statistics.

Homebase statistics on small business closures are based on data for the number of hours logged by hourly workers at small business establishments over the reference period, in comparison to the same days of the week during the period January 4-31, 2020. If no hourly workers at a small business recorded hours on a given date, then the business was considered closed. The exact meaning of business "closure" likely varies by industry and business type, but Homebase data nonetheless offer a compelling benchmark for determining how COVID-19 has affected small business activity. Homebase data corroborate those from other sources, including a US Chamber of Commerce/Metlife April 3 survey reporting that 54% of small businesses were likely to close temporarily by mid-April, and data on card transactions at small business establishments from Womply.

Because Homebase users tend to be more concentrated in retail and accommodation & food services, Keybridge adjusted the national-level figures on business closure rates to better reflect the industry breakdown of small businesses in the total US economy.

Adjustments were also made for state-level figures on closure rates, but due to data limitations, the adjustments assume that Homebase data were similarly biased toward retail and accommodation & food services as for the total U.S. economy. State-level figures on business closure may therefore be somewhat less accurate for smaller states with less diversified economies than for larger states whose economies more closely resemble the total US economy. However, discrepancies are likely to be minor.

Estimates for the number of businesses closed were calculated by multiplying the share of small businesses closed by the total number of small businesses in each state in 2017. Payroll estimates are derived from the 2017 SUSB tables but adjusted to include all payroll costs beyond wages/salaries in 2019. Estimates for PPP loan demand by state were made by incorporating an 80% national benchmark for businesses likely to apply for PPP loans and adjusting the share by each state's peak closure rate. By design, and due to data limitations, the estimates better illustrate the distribution of credit demand across states than the absolute demand for small business credit in each state, which is difficult to determine. Restrictions on the use of PPP funds mean that the estimates for PPP credit demand may severely underestimate true credit demand nationally and in each state or territory.

Because Homebase does not offer data on small business closure for the US territories beyond Puerto Rico, estimates for PPP demand for those four U.S. territories assume credit demand is similar to the national average (80%).

Notes

[1] US Bureau of Labor Statistics, US Census Bureau (employment figure).

[2] 80% national benchmark is estimated from a National Federation of Independent Business (NFIB) survey released April 9 reporting 70% of small business owners had attempted to apply for PPP, and an additional 10% were planning to apply in the next month. These figures are in line with other small business surveys conducted in the last 6 weeks.

[3] For more on this issue, see e.g., a May 4 WSJ report on community lenders and the PPP.

[4] Society for Human Resource Management (SHRM) survey, "Navigating COVID-19: Impact of the Pandemic on Small Businesses" (May 6, 2020).